

# Small Business Guide to Commercial Insurance

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# Introduction to Commercial Insurance

Whether you are contemplating starting a new business, are a new business owner, or have owned a business for many years, commercial insurance can be one of the most important ongoing financial investments you make in the life of your company. Operating a business is extremely challenging without having to worry about suffering significant financial loss due to unforeseen circumstances. Commercial insurance can protect you from some of the most common losses experienced by business owners such as property damage, business interruption, theft, liability, and worker injury. Purchasing the appropriate commercial insurance coverage can make the difference between going out of business after a severe loss or recovering with minimal business interruption and financial impairment to your company's operations.

## How Can I Purchase Commercial Insurance?

(Contacting a Broker-Agent)

One of the first steps in purchasing small business insurance is to contact a licensed insurance broker-agent who specializes in commercial coverages. Beginning a working relationship with a reliable, competent broker-agent can be as crucial to your business plan as getting professional advice from an accountant, banker, human resources analyst, payroll specialist, lawyer, or a trusted business mentor.

Business contacts that you have made are excellent referral sources for recommending a commercial lines broker-agent, especially if the contacts are in the same industry as your business or in a closely related industry.

Professional broker-agent associations can assist you in your search for a licensed commercial insurance broker-agent. The Insurance Brokers and Agents of the West (IBA West) and the Western Insurance Agents Association (WIAA Group) are professional asso-

ciations that can assist you in contacting a commercial insurance broker-agent in your local area. Please see the “Resources” section of this brochure if you would like to contact the IBA West or the WIAA Group. Also, looking through the local yellow pages under the insurance section can aid you in locating the phone numbers for those broker-agents specializing in commercial insurance.

## What Should I Expect from a Broker-Agent Who Specializes in Commercial Insurance?

When conducting your broker-agent search, it is important to verify the broker-agent’s insurance license with the California Department of Insurance (CDI). The CDI is responsible for licensing all broker-agents who sell or market insurance in California. A broker-agent is issued a fire and casualty license, which enables him/her to sell commercial property and casualty insurance. A fire and casualty broker-agent is required under Section 1725 of the California Insurance Code (CIC) to prominently display his/her license in his/her office. CIC 1725.5 further requires a licensee of the CDI to prominently print his/her license number on all business cards, written price quotations for insurance products, and print advertisements for insurance products distributed in California. Please see the “Talk to Us” section of this brochure for the many ways to contact the CDI to verify a broker-agent’s license.

After you have interviewed several broker-agents and checked their license status with the (CDI), you will be better able to determine the broker-agents with whom you would like to do business. While the term broker-agent is a specific license designation with the CDI, brokers and agents act in different ways to secure insurance for consumers. Brokers may sell for many insurance companies and are usually paid by you in the form of a broker fee charged for placing and servicing your insurance business. Agents are appointed by insurance companies and are paid a commission by the insurance company with which business is placed. It is possible

to approach several agents for quotes on your commercial insurance business since any particular agent may represent a limited number of insurance companies.

Initially a broker-agent will meet with you to discuss your business operations and the exposures (the possibility of loss) that are specific for your industry and business type. If you currently have business insurance, the broker-agent will ask to review your current policy. This is a standard practice used to determine the current coverage you have. The broker-agent is comparing limits, exposure bases, business classifications, exclusions, and endorsements in order to analyze any gaps, errors, or overlaps that may exist in your current commercial policy. It is not necessary to share the premiums you have paid for your current or prior business insurance, but you should be forthcoming with any other information that affects your business operations. The more credible information you provide to the broker-agent in the application process, the better the broker-agent can assess specific insurance needs and provide you with the best options to satisfy those needs and protect your business from loss.

## What Kind of Insurance Do I Need to Purchase for My Business?

Depending on the individual risk characteristics of your business, the broker-agent will present you with different coverage options for purchasing commercial insurance. A broker-agent's proposal is just that, a proposal. When all is said and done it is your responsibility to make an informed decision and choose the insurance that best fits your business plan. The relationship that you build with a broker-agent is extremely valuable in this critical decision making process. An experienced broker-agent has dealt with hundreds of businesses similar to yours. Since commercial insurance can be complicated, you should feel free to discuss any terms, conditions, or concepts that are unclear to you with your broker-agent. It is

part of a broker-agent's service to answer your questions and help you understand the insurance you are purchasing.

While your business may not need all commercial coverage lines, it is a good idea to have a basic knowledge of the types of insurance coverage available. As your business changes and expands you will have the necessary knowledge to purchase insurance coverage as new exposures arise. The following commercial lines of insurance cover broad areas of exposure common to most business operations:

### Property Insurance

- Commercial Property
- Inland Marine
- Boiler and Machinery
- Crime

### Casualty Insurance

- Commercial Automobile
- Commercial General Liability
- Commercial Umbrella
- Workers Compensation

## Property Insurance

Commercial insurance is divided into two main categories: property insurance and casualty insurance. Property insurance provides coverage for property that is stolen, damaged, or destroyed by a covered peril. The term “property insurance” includes many lines of available insurance. **Commercial Property, Inland Marine, Boiler and Machinery, and Crime** are the most common commercial property coverage lines. Each of these property coverage lines is described below.

# COMMERCIAL PROPERTY

## Coverage Sections, Limits of Insurance, and Coinsurance

Buildings you own or lease as a part of your business, your business personal property, and the personal property of others make up the basic coverage sections of commercial property insurance. Commercial property insurance can be sold separately as an individual line policy (referred to as a monoline policy), or it can be sold as part of a Commercial Package Policy (CPP), which combines two or more commercial coverage parts such as commercial property, general liability, and commercial auto.

**Building** coverage includes buildings or structures and any completed additions, which are listed on the declarations page of a commercial policy. Permanently installed fixtures, machinery, and equipment are also insured as a part of building coverage. The limit of insurance is the estimated amount needed to rebuild your building and to replace permanently installed fixtures, machinery, and equipment in the event of a total loss. You are required under the insurance policy to fully insure the value of your buildings. If a building is not insured to value, you can be subject to a monetary penalty at the time of a loss. This penalty is commonly referred to as “coinsurance.” It is important to read and understand the coinsurance clause of your commercial property policy and to discuss any questions with your broker-agent.

**Business Personal Property** consists of furniture; fixtures, machinery, and equipment not permanently installed; inventory; or any other personal property owned by and used in your business.

**Personal Property of Others** refers to property that is in your business’s care, custody and control. The type of business you operate will determine if you need to protect the personal property of others.

## Covered Causes of Loss

Whether or not a property loss is covered depends upon the policy language, exclusions, and endorsements. You can choose the covered

causes of loss in your property policy. Causes of loss are divided into two main categories: specified perils and open perils.

**Specified Perils** consist of a list of each peril to be insured against, such as fire, explosion, windstorm, vandalism, et cetera. You can usually request basic specified perils or broad specified perils coverage. Broad specified perils coverage adds to the list of covered perils found under basic specified perils.

**Open Perils** coverage covers all losses unless they are specifically excluded. Earth movement (including earthquake) and flood are two common perils that are excluded under open perils coverage. Since open perils coverage offers more comprehensive protection, it is more costly than a specified perils policy.

## Valuation Types

Commercial property coverage will include a provision to determine what valuation method is to be used to pay the loss. The most common policy valuation method is Actual Cash Value (ACV). Unless otherwise defined in the policy, ACV is considered to be Fair Market Value in California. There are two other methods of property valuation: agreed value and replacement cost. Agreed value waives any coinsurance penalty and pays 100% of the stated amount (agreed upon amount) for any covered loss. Replacement cost covers the amount it takes to replace your property with new property of like kind and quality up to the limits of insurance. Like ACV, replacement cost is subject to coinsurance.

## Coverage Forms and Endorsements

There are various coverage forms and endorsements in addition to the basic property coverages already discussed that can customize coverage in a commercial property insurance policy. The following are the most common coverage forms and endorsements used in commercial property insurance:

- **Builder's Risk** – Added to a policy for a one-year minimum term to cover a new building or structure under construction or

an existing structure undergoing additions, alterations, or repairs. Cancellation is allowed on a pro rata basis upon project completion; however, midterm cancellation will result in a short rate penalty. A reporting form or renovations form allows coverage to be carried according to the stage of completion (i.e., as more of the project is completed, more value is reported, resulting in the proper amount of coverage for each stage of construction).

- **Legal Liability or Fire Legal Liability** – Covers your legal liability for loss or damage to real and personal property of others as the result of your negligent acts and/or omissions. The loss or damage must be caused by a covered peril (including loss of use). The loss must be accidental and the coverage most often is purchased for tenants in commercial buildings.
- **Building Ordinance or Law** – Provides coverage if the enforcement of any building, zoning or land use law results in loss to the undamaged portion of the building (Coverage A); demolition and removal costs of undamaged parts of the structure (Coverage B); or any increased cost of repairs or reconstruction (Coverage C). Replacement cost must be in effect for Coverage C to be applied.
- **Improvements and Betterments** – Usually added by a lienholder. Covers all permanently installed improvements and betterments, which cannot be removed when a tenant vacates the building.
- **Glass** – Basic specified perils for glass coverage include any resulting damage to other property from broken glass due to vandalism and also vandalism to glass building blocks. Broad and specified perils covers \$100 per pane of glass up to \$500 per occurrence. A glass form must be added for scheduled glass coverage when there is a significant glass exposure to insure. The glass form includes the number of panes, dimensions, location, lettering, and ornamentation. A separate glass deductible may be scheduled as well.
- **Peak Season** – An endorsement that provides additional limits on personal property inventory during a designated period of



time. This is specifically used to cover fluctuating inventory values before and during peak shopping seasons.

- ***Inflation Guard*** – Automatically adjusts the limits of insurance to keep up with inflation. The adjustment can be tied to the construction cost index in a regional area or a specified percentage per year. This endorsement can be very important in helping to maintain adequate coverage limits, which can protect against potential coinsurance penalties in a property loss.
- ***Time Element*** – Insurance that covers other losses stemming from a direct loss by a covered peril to business property. Business interruption, extra expense, and loss of rents and rental value are the most common time element coverages. Business interruption coverage replaces lost business income after a covered loss. Certain key employees can be named, allowing the employer to continue to pay their salaries until the business restarts operations after a loss. Extra expense coverage mainly applies to service or product related companies where the business must continue to ensure the survival of the company. Extra expense can pay for office space, equipment rental, advertising, or most costs considered reasonable for keeping the company operating after a covered loss. Loss of rents and rental value cover loss of rental income to the property owner caused by damage or destruction of a building rendering it unfit for occupancy.

## INLAND MARINE

Without prior knowledge of inland marine insurance, it is easy to assume that this insurance line has something to do with boating transportation. In fact, inland marine insurance can cover a variety of transportation exposures; however, it does not cover boating transportation, which is covered under ocean marine insurance. Inland marine is a specialized type of property insurance that primarily covers damage to or destruction of your business property while in transport. Inland marine also covers the liability exposure for the damage or destruction that may occur to property in your care, custody, or control during transport.

## **Covered Causes of Loss**

Standard perils in Inland Marine may include fire, lightning, windstorm, flood, earthquake, landslide, theft, collision, derailment, overturn of the transporting vehicle, and bridge collapse.

## **Coverage Forms and/or Specialty Coverages**

Inland marine has great flexibility in covering many potential transportation risks. Some of the most common types of coverage offered are accounts receivable insurance, consignment insurance, equipment floaters (i.e., contractors equipment), installation floaters, motor truck cargo insurance, trip transit insurance, and valuable papers (records) insurance. If you have questions regarding particular business, then contact your broker-agent for further information.

## **BOILER AND MACHINERY**

Boiler and machinery insurance can add an important layer to potential insurance coverage. Boiler and machinery insurance is currently marketed under such names as “systems protector,” “systems breakdown,” and “machinery breakdown” insurance. Boiler and machinery insurance covers business property, other property losses, and legal fees (if any) that may result from the malfunction of boilers and machinery. Boiler coverage includes covering the costs of inspection and often maintenance of boilers. Machinery coverage can include many different types of machines used in retail, office and manufacturing settings. Machinery coverage also includes major machinery systems common to most commercial buildings, such as heating, ventilating and air conditioning systems. Since most commercial property policies exclude losses from boilers and machinery, it is important to be aware of any exposure your business may have and discuss it with your broker-agent.

## CRIME

Crime insurance provides protection for the assets of your business including merchandise for sale, real property, money and securities. It is considered a property insurance line. Based on the crime coverage that you purchase, it is possible to be covered for the following causes of loss: robbery, burglary, larceny, forgery, and embezzlement. Specialty coverage parts can be added based on need and exposure to loss such as mercantile open-stock, burglary insurance, mercantile robbery insurance, mercantile safe burglary insurance, money and securities broad form policy, office burglary and robbery insurance, and storekeepers burglary and robbery insurance.

## Casualty Insurance

Casualty insurance provides coverage primarily for the liability exposure of an individual, business or organization. Liability from the negligent acts and omissions of an individual, business or organization that causes bodily injury and/or property damage to a third party is the subject of casualty insurance coverage.

**Commercial Automobile, Commercial General Liability, Commercial Umbrella, and Workers Compensation** are the most common business casualty insurance lines.

## COMMERCIAL AUTOMOBILE

### Coverage, Classification and Limits of Insurance

Commercial automobile coverage is similar to the coverage you may carry on your personal auto; however, commercial automobile exposures can be more complex requiring specialty coverages to be considered based on the individual needs of your business. Basically, commercial automobile coverage can protect your company from any liability stemming from automobiles used in your business or any damage to the covered automobile. A Business Auto Policy (BAP) has the flexibility to provide coverage for

business, personal, non-owned, or hired autos based on the coverage purchased and applied to each scheduled auto. In other words, automobiles can be separately scheduled along with corresponding coverages. Coverage can differ by vehicle and a symbol or multiple symbols will designate the coverage assigned to a scheduled auto. These symbols are referred to as covered auto symbols and use a simple numerical system (1-13). The automobiles are classified by weight (light, medium, heavy, extra heavy) and by type of use (private passenger, service, commercial). Unlike personal auto policies that separate bodily injury and property damage limits (split limits), BAPs commonly utilize a Combined Single Limit (CSL) for the limit of insurance. This creates higher limits for both coverages, including per occurrence limits. Common commercial automobile CSLs are \$500,000 or \$1,000,000.

## COMMERCIAL GENERAL LIABILITY

### Coverage

One of the key concepts of liability coverage is that it is comprehensive in nature. What this means is that the policy (insuring agreement) covers all hazards within the scope of the insuring agreement that are not otherwise excluded. It is likewise comprehensive in that it provides automatic coverage for new locations and activities of your business, which come about after policy inception and throughout the policy term. Commercial General Liability (CGL) is the standard commercial liability policy used to insure businesses.

There are three primary coverage sections that make up a CGL policy: premises liability, products liability and completed operations. Premises liability covers liability for accidental injury or property damage that results from either a condition on your premises or your operations in progress, whether on or away from your premises. A products liability hazard exists for any business that manufactures, sells, handles, or distributes goods or products. The hazard being the potential liability for bodily injury or property

damage that arises out of your goods or products. Completed operations covers your potential liability for bodily injury or property damage that arises out of your completed work.

The major exclusions under a CGL policy include: intentional injury; insured contracts; liquor liability; workers compensation and employers liability; pollution; aircraft; automobile; watercraft; mobile equipment; war; care, custody, and control; damage to your work; impaired property; sistership liability; and failure to perform. It is always important to read and understand all coverage exclusions; however, it is particularly critical in a liability policy. If you do not understand the coverage exclusions or limitations of the CGL policy, then contact your broker-agent and discuss completely until a working understanding is achieved.

## **Classification**

The type of business you run determines how a CGL policy is classified. Generally speaking, a specific code or codes (in some situations) are assigned based on exposures that are common to your type of business operation. The way a business risk is classified is the first step to determine premium and an important part to the rating formula. Commercial rating and premium computation will be covered later in this brochure.

## **Limits of Insurance**

The CGL policy has separate limits of insurance for general liability, fire legal liability, products and completed operations liability, advertising and personal liability, and medical payments. An aggregate limit of liability is in force for the general liability, fire legal liability, advertising and personal liability, and medical payments claims. When total claims for all these areas exceed a stated annual aggregate limit of liability, the policy limits are exhausted and no more claims will be paid from the policy for the duration of the policy period. There is also a separate aggregate limit of liability in force for products and completed operations liability claims.

## COMMERCIAL UMBRELLA

When a liability claim goes above the aggregate limit of liability, the policy limits are exhausted. By purchasing a commercial umbrella, you can protect your business from being liable for this excess liability judgment. A commercial umbrella covers the amount of loss above the limits of a basic liability policy. Commercial automobile, CGL, workers compensation, or any liability policy can be covered by a commercial umbrella. A commercial umbrella may also provide coverage if a basic liability policy is not in force. Also, commercial umbrellas can provide coverage for gaps in coverage under basic liability policies. When a commercial umbrella provides coverage for basic liability loss it does not pay the loss from the first dollar. It is common to have a Self-Insured Retention (SIR) amount of at least \$10,000. SIR is similar to a deductible. If there is a commercial umbrella loss and there is no corresponding underlying policy in force, you must pay the first \$10,000 of the loss before the umbrella policy responds.

## WORKERS COMPENSATION

When an employee suffers a work related injury or illness, workers compensation insurance steps in to provide benefits based on the type of illness or injury sustained. Workers compensation is based on a no-fault system, which means that an injured employee does not need to prove that the injury or illness was someone else's fault in order to receive workers compensation benefits for an on-the-job injury or illness.

As a California employer you are required under California Labor Code Section 3700 to provide workers compensation benefits for your employees. You can purchase workers compensation insurance from a licensed insurance company or through the State Compensation Insurance Fund (SCIF). Employers may also have the option to self-insure. Your broker-agent can assist you with purchasing workers compensation insurance from a licensed insurance company and can assist you with information on SCIF and self-insurance.

SCIF is a state-operated entity that exists in order to transact workers compensation insurance on a non-profit basis. SCIF competes with private workers compensation insurance companies for business, and it also operates as the insurer of last resort if private insurance companies are not willing to offer workers compensation insurance. If you are interested in SCIF, you can contact SCIF directly. See the “Resources” section of this brochure for contact information.

To become self-insured, you must obtain a certificate from the California Department of Industrial Relations, Office of Self-Insurance Plans. Private employers have to post security as a condition of receiving a certificate of consent to self-insure. Self-insurance is only a viable option for very large, stable employers due to the large amounts of security required to be posted. For complete information on workers compensation self-insurance, contact the California Department of Industrial Relations, Office of Self-Insurance Plans. See the “Resources” section for contact information.

## **Coverage Sections**

Workers compensation insurance is divided into two coverage sections. In workers compensation part one the insurance company agrees to promptly pay all benefits and compensation due to an injured worker by workers compensation laws of the states listed on the declarations page of the policy. In employers liability part two the employer is protected against situations where an employee can sue for injuries suffered under common law liability (i.e., consequential bodily injury, loss of consortium, dual capacity, or third party over actions). These types of injuries in the course of employment are not covered under workers compensation law and are therefore not compensable under the workers compensation part one.

## **Classification and Rating**

Classification of workers compensation insurance is based upon the specific duties that your employees perform in the course of their employment with your company. These classifications are

developed and assigned by the Workers Compensation Insurance Rating Bureau (WCIRB) in most cases. Your workers compensation insurance company when working with the WCIRB must use the classification codes the WCIRB provides when rating your specific policy. Insurance companies can develop and submit their own classification system to the CDI for approval, but this is uncommon. Each classification is assigned a specific rate by the insurance company, which helps determine the overall premium for your policy. The WCIRB also generates the experience modification that must be applied to your policy. The experience modification is calculated from loss information your insurance company is required to submit to the WCIRB on an annual basis. The WCIRB provides a policyholder ombudsman who is available to answer questions from employers on classification, experience modification, and rating issues. Please see the “Resources” section at the end of this brochure for contact information on the WCIRB and their policyholder ombudsman.

## Claims

It is important to note that workers compensation claims do not come under the jurisdiction of the CDI. The California Department of Industrial Relations, Division of Workers Compensation can assist you with questions or concerns regarding workers compensation claims. You can contact the California Department of Industrial Relations by using the information provided in the “Resources” section of this brochure. Also, you should be able to discuss any general workers compensation claims issues with your broker-agent or discuss issues on a specific claim with the claim adjuster that has been assigned to the case by your insurance company.

## What Is a Business Owners Policy?

Designed specifically for small businesses, a Business Owners Policy (BOP) is a combination commercial policy that covers property, general liability and business interruption. It is written with strict underwriting guidelines including maximum allowable square footage for office, retail, or apartment risks. A BOP



is most appropriate for small, “main street” businesses such as: hardware stores, barbershops, greeting card shops, accountant offices, or low-density apartment houses. Discuss the option of a BOP with your broker-agent, as the premium for qualifying businesses can be very competitive.

## How Are Commercial Policies Rated, Deductibles Selected, and Premiums Developed?

The way a policy is rated determines how the policy premium is developed. Rating factors vary based on the line of insurance you are purchasing. If you are purchasing commercial property insurance, the building rating formula is based on factors including square footage, type of construction, sprinklered or non-sprinklered, and the fire protection classification. If you are purchasing general liability insurance, the rating formula can be based on square footage, payroll, or gross sales depending on the general liability classification codes used. These are known as rating exposures.

Once the rating exposures are identified and the deductibles selected (usually from information you have provided on the application), the premium is calculated by a simple formula:  $\text{rate} \times \text{exposure} = \text{premium}$ . The deductible amount you choose will be calculated in the rate. The higher the deductible (the amount you choose to self-insure) the lower the rate. By utilizing higher deductibles, you can bring your premium cost down; however, you do not want to jeopardize your company’s financial future by choosing overly large deductibles. Speak with your broker-agent for the deductible options available to you when purchasing commercial insurance.

The basic rating equation most often utilizes other modification factors, which can include experience modifications, schedule rating, or judgment rating. Because rating formulas can range from simple to complex, depending on the line of insurance, it is important to discuss how your policy is rated and how the policy premium is calculated with your broker-agent.

# What Do I Need to Know About Commercial Claims?

Depending on the type of loss your business experiences, the duties and responsibilities required by you in a claim can be numerous. It is important to remember that your broker-agent can assist you throughout the claims process. In many cases your broker-agent will be your first point of contact when filing an insurance claim. Whether you contact your broker-agent or the insurance company directly when filing a claim, you are required under the insurance contract to report all claims in a timely manner. This allows the insurance company to process the claim and conduct their investigation as quickly as possible.

Since commercial claims tend to be more complex, it is important for the company to assess the claim quickly in order to mitigate any situation that may have the potential for increased loss. This is especially crucial in liability claims, as there can be high dollar amounts at stake. When claims are not controlled early in the claims process, litigation from third parties can arise. Litigation can be expensive and often ends in a judgment much higher than if an experienced claim representative had handled the claim from the beginning. This is why it is necessary to turn all claims over to your broker-agent or insurance company as soon as you are made aware of the claim. Trying to handle the claim yourself violates your duties under the insurance contract and can be costly to you in the long run.

Most business owners are aware that claims loss experience is reflected in the rating formula and directly affects premium costs. By following the duties outlined in your contract regarding claims, you are a partner with your insurance company in helping to keep claims costs to a minimum, which in turn helps keep your premium costs down. The better your claims experience, the greater modification allowed to lower your premium. When you first receive your policy, contact your broker-agent to discuss all the duties and responsibilities required by you under the contract.

## Deductible

The deductible on a commercial policy is the part of the loss that you pay up-front before your insurance company pays a claim. Based on the amount of the deductible as stated in your policy, the insurance company will pay up to the limits of the policy when a claim is covered after you have provided the deductible payment. The type of deductible utilized in a commercial policy is referred to as an “absolute dollar amount.” The higher the absolute dollar amount (deductible), the lower your premium.

## Loss Control

One of the most effective ways to decrease the frequency and potential severity of claims is through loss prevention and control. Most commercial insurance companies have their own loss prevention departments; however, some insurers rely upon contracted loss prevention services. Usually loss control services are built into higher risk, higher premium accounts as a part of the entire package of insurance. If you are a small business owner, you can still benefit from proven loss control methods. Based on your type of business exposure, your broker-agent can offer suggestions on how to best control the loss exposures common to your business. The broker-agent along with your account underwriter, claims representative, and loss control representative can create an entire program of loss prevention that includes specific modifications and procedures to follow that can help create a safer workplace. These programs can even include an employee safety program that incorporates awards and suggestions. Getting your employees involved in loss control makes good business sense. Creating a safe work environment benefits everyone. When proven loss control methods are implemented, the public and workers are better protected, and your premium costs go down as your loss experience improves.

# What If I Have Trouble Locating Insurance for My Business?

Most businesses will have no difficulty obtaining insurance in the standard insurance market with the assistance of a qualified broker-agent. However, if your business has experienced significant losses, your business is considered to be engaged in high-risk operations (with a greater chance of claims frequency or severity), or you have recently started your business, you may not be able to locate insurance in the standard commercial insurance market. Your broker-agent can explain the options you may have in seeking and securing commercial insurance elsewhere.

## SURPLUS LINE INSURANCE

When you have had three applications turned down from a licensed commercial insurance carrier (and have written documentation of the declination to insure) you can proceed to obtain insurance from the surplus line market. Sometimes referred to as the “non-admitted” market, surplus line companies offer insurance to businesses that cannot find insurance in the standard line insurance market. While these companies are not licensed by the CDI, they do have to go through an approval process that includes providing evidence of minimum capital and surplus requirements. When these requirements have been met to the CDI’s satisfaction, the CDI may approve the company to conduct business in California and subsequently add them to the List of Eligible Surplus Line Insurers (commonly referred to as the LESLI list).

A surplus line company can only be accessed through a specially licensed broker. The broker must have a surplus line license issued by the CDI in order to sell surplus line insurance. Before purchasing insurance from a surplus line insurance company, your broker must provide you with a disclosure notice under CIC Section 1764.1 that the insurance you are buying is being issued from a surplus line company.

Although surplus line insurers must follow the Fair Claims Settlement Practices Regulations (regulations that govern how insurers handle claims), the CDI has limited jurisdiction over the operation of surplus line insurers. If the company becomes insolvent (goes bankrupt), your only course of action will be through the courts. The California Insurance Guarantee Association (CIGA), which protects claims with admitted insurers, does not apply to surplus line insurers. A surplus line broker should be able to supply information on the financial solvency of any surplus line company that it represents. You can also contact the many independent rating organizations that analyze insurance company solvency by using the information provided in the “Resources” section of this brochure. After checking the financial solvency of the surplus line company, you may also wish to verify that the surplus line company is approved by the CDI and currently on the LESLI list. You can contact the CDI through the information located in the “Talk to Us” section at the end of this brochure to check if a surplus line company is on the LESLI list.

## CALIFORNIA FAIR PLAN

The California FAIR Plan has been in operation since 1968 to provide basic property insurance to property owners who are unable to obtain insurance in the standard market. Although the California FAIR Plan was established by the legislature, it is not a state agency. It is an association of all property insurers licensed in the state, who participate according to the percentage of property insurance they write in California. The California FAIR Plan was established to assure stability and accessibility of property owners to property insurance. The majority of California FAIR Plan business is in designated urban, inner city, and areas subject to destructive wildfires. While the California FAIR Plan writes primarily policies for personal property holders (homeowners), they do write a small percentage of policies for commercial property owners. Any broker-agent can help you place a commercial property policy with the California FAIR Plan. You may also request an application and informational pamphlet from the California FAIR Plan directly by utilizing the contact information available in the “Resources” section of this brochure.

# Are There Specific Rules on Commercial Insurance Cancellation and Nonrenewal?

Commercial insurance companies must follow the rules set out in the insurance code regarding commercial insurance cancellation and nonrenewal. There are separate insurance code sections covering cancellation and nonrenewal for workers compensation, auto, ocean marine, surplus line, reinsurance policies, and other commercial insurance lines; therefore, it may be a good idea to contact the CDI for a complete explanation if you run into any problems with cancellation or nonrenewal notice. If you are unclear as to your rights under the insurance code, then contact the CDI by any of the methods given in the “Talk to Us” section of this brochure.

## In Summary

Commercial insurance by its very nature is complex. However, it is possible with the assistance of a competent licensed broker-agent to steer clear of the pitfalls and make good decisions when purchasing insurance for your business. This brochure is meant to be a starting place for the small business owner investigating commercial insurance coverage. Throughout the brochure general information has been given on the greatest areas of concern when dealing with commercial insurance. If you desire further clarification on any commercial insurance topic, then please contact the CDI through the information given in the “Talk to Us” section. Also, this brochure has a “Resources” section as well as a “Glossary” that may be of further assistance to you in providing answers to questions you may have concerning commercial insurance.

# Resources

## **A.M. Best Company**

Ambest Road  
Oldwick, NJ 08858  
Phone: 908-439-2200  
Web Site: [www.ambest.com](http://www.ambest.com)

## **California Department of Industrial Relations**

**Division of Workers  
Compensation (DWC)**  
PO Box 420603  
San Francisco, CA 94142  
Phone: 800-736-7401  
Web Site: [www.dir.ca.gov](http://www.dir.ca.gov)

## **California Department of Industrial Relations Office of Self Insurance Plans (SIP)**

2265 Watt Avenue, Suite 1  
Sacramento, CA 95825  
Phone: 916-483-3392  
Web Site: [www.dir.ca.gov](http://www.dir.ca.gov)

## **California FAIR Plan**

PO Box 76924  
Los Angeles, CA 90076-0924  
Phone: 213-487-0111 or  
800-339-4099  
Web Site: [www.cfpnet.com](http://www.cfpnet.com)

## **Fitch Ratings**

One State Street Plaza  
New York, NY 10004  
Phone: 212-908-0500 or  
800-753-4824  
Web Site: [www.fitchratings.com](http://www.fitchratings.com)

## **Insurance Brokers and Agents of the West (IBA West)**

7041 Koll Center Parkway, Suite 290  
Pleasanton, CA 94566-4041  
Phone: 800-772-8998  
Web Site: [www.ibawest.com](http://www.ibawest.com)

## **Moody's Investors Service**

99 Church Street  
New York, NY 10007  
Phone: 212-553-0377  
Web Site: [www.moody's.com](http://www.moody's.com)

## **Standard & Poor's**

One Market  
Steuart Tower, Suite 1500  
San Francisco, CA 94105  
Phone: 415-371-5000  
Web Site:  
[www.standardandpoors.com](http://www.standardandpoors.com)

## **Weiss Ratings**

15430 Endeavour Drive  
Juniper, FL 33478  
Phone: 800-289-9222  
Web Site: [www.weissratings.com](http://www.weissratings.com)

## **Western Insurance Agents Association (WIAA Group)**

11190 Sun Center Drive, Suite 100  
Rancho Cordova, CA 95670  
Phone: 800-553-4221  
Web Site: [www.wsaagroup.org](http://www.wsaagroup.org)

## **Workers Compensation Insurance Rating Bureau (WCIRB)**

525 Market Street, Suite 800  
San Francisco, CA 94105-2767  
Phone: 888-229-2472  
Web Site: [www.wcirbonline.org](http://www.wcirbonline.org)  
Policyholder Ombudsman  
Phone: 415-777-0777

# Glossary

## **Actual Cash Value**

Unless otherwise defined in the policy, Actual Cash Value in California means Fair Market Value. The Fair Market Value of an item is the dollar amount that a knowledgeable buyer (under no unusual pressure) is willing to pay and a knowledgeable seller (under no unusual pressure) is willing to accept.

## **Agent**

A licensed individual or organization authorized to sell and service insurance policies for an insurance company.

## **Aggregate Limit**

The maximum dollar amount of coverage in force for a property damage policy or liability policy. This maximum amount can be figured on a per occurrence basis or as a general aggregate for the complete policy term.

## **Agreed Value**

A method of loss valuation where the insured and the insurer list an agreed upon amount to be paid in case of loss. This valuation method is most common in property insurance when insuring valuable artwork, antiques, or classic autos. A professional appraisal is usually required.

## **Arbitration Clause**

A clause in an insurance policy that allows the insured and the insurer to each appoint an arbitrator if they cannot agree upon an appropriate claim settlement. Once the arbitrators have been selected, they in turn appoint an independent umpire. If the arbitrators disagree, then the umpire decides which claims settlement to support. The final decision is binding.



**Betterment**

A situation that occurs in a loss when an old piece of property is replaced by a brand new item. The insured is put in a better financial position than they were before the loss occurred, and consequentially may have to pay the difference in price for the betterment.

**Binder**

A short-term agreement that provides temporary insurance coverage until the policy can be issued or delivered.

**Broker**

A licensed individual or organization who sells and services insurance policies on your behalf.

**Broker-agent**

A licensed individual who can act as an agent representing one or more insurers, and also as a broker dealing with one or more insurers representing your interests.

**Cancellation**

The termination of an in-force insurance contract by either the insured or the insurer before its normal expiration date.

**Claim**

Notice to an insurance company that a loss has occurred that may be covered under the terms and conditions of the policy.

**Claim Adjuster**

The person who evaluates the damage caused by a covered loss and determines the amount to be paid under the policy terms.

**Claims Made**

A liability insurance policy where coverage applies to claims filed during the policy period no matter when the loss occurred subject to a retroactive inception date.

## **Coinsurance**

An insurance clause that defines the amount of each loss that the company pays according to the amount of insurance carried, divided by the amount of insurance required. This basic formula relates to a contracted percentage of coverage that must be required to prevent a coinsurance penalty.

## **Combined Single Limit**

When bodily injury liability and property damage liability is expressed as a single sum (limit) of coverage.

## **Commercial Lines**

Insurance coverages for businesses, commercial institutions, and professional organizations, as contrasted with personal insurance.

## **Commission**

A portion of the policy premium that is paid to an agent by the insurance company as compensation for the agent's work.

## **Concurrent Causation**

Occurs when two or more perils cause a loss. When only one of these perils is covered by the insurance policy, the court generally rules that the entire loss is covered. Many insurance companies have reworded their policies to clarify that only a loss attributed to a covered peril is indeed covered.

## **Conditions**

The portion of an insurance contract that sets forth the rights and duties of the insured and the insurer.

## **Consequential Bodily Injury**

In Workers Compensation, special circumstances can arise when a work-related injury causes some sort of non-work related injury. (Please see Loss of Consortium, Dual Capacity, and Third Party Over glossary definitions.)

## **Coverage**

Protection that is provided under an insurance policy.

## **Declarations (DEC) Page**

Usually the first page of an insurance policy that contains the full legal name of the insurance company, the policy number, effective and expiration dates, premium payable, the amount and types of coverage, and the deductibles.

## **Deductible**

The amount of the loss that the insured is responsible to pay before benefits from the insurance policy are payable.

## **Depreciation**

The actual or accounting recognition of the decrease in value of property over a period of time according to a predetermined schedule.

## **Dual Capacity**

In Workers Compensation, an employer may be liable two ways to an employee who incurs bodily injury on the job as a result of using a product or service produced by that employer. The employee is eligible for Workers Compensation benefits and may also sue the employer because of the defectiveness of the injuring product or service.

## **Earned Premium**

The portion of the policy premium paid by an insured that has been allocated to the insurance company's loss experience, expenses, and profit year to date.

## **Endorsement**

A written agreement that changes the terms of an insurance policy by adding or subtracting coverage.

## **Effective Date**

The starting date of an insurance policy: the date the policy goes in to force.

## **Exclusion**

A contractual provision in an insurance policy that denies or restricts coverage for certain perils, persons, property, or locations.

## **Experience Modification**

The adjustment of premium resulting from the use of experience rating. Experience rating plans reflect an insured's past loss experience (usually from the past three years) and uses this experience to modify and determine the premium for the current policy year.

## **Expiration Date**

The termination date of coverage as indicated on an insurance policy.

## **First Party**

The policyholder (insured) in an insurance contract.

## **Flat Cancellation**

Cancellation that takes place on the policy effective date. No premium charge is made; however, other charges (i.e., service) may apply.

## **Fraud**

An intentionally deceptive act committed to obtain an unfair or unlawful advantage. Fraud usually involves monetary gain.

## **Frequency**

The number of times a loss occurs.

## **Hazard**

A circumstance that increases the likelihood or potential severity of a loss.

## **Indemnity**

In a property and casualty contract, the objective is to restore an insured to the same financial position after the loss that the insured had prior to the loss. In the most basic sense, indemnity is compensation for a loss.

## **Independent Adjuster**

A person or organization that provides claim adjusting services to different insurers on a contract basis.

## **Insurable Interest**

Any interest (most commonly ownership) that a person, company, or corporation has in a subject of insurance such as a business, building, or auto, which can be damaged and may cause the person, company, or corporation financial loss or other tangible deprivation. Generally, an insurable interest must be demonstrated when a policy is issued and must exist at the time of loss.

## **Insurance**

A method of shifting risk from a person, business, or organization to an insurance company in exchange for the payment of premium. The insurance company commits to be responsible for covered losses.

## **Insured**

The policyholder(s) entitled to coverage under an insurance policy.

## **Insurer**

The insurance company who issues insurance and agrees to pay for losses and provide covered benefits.

## **Insuring Agreement**

The portion of an insurance contract that describes what is covered. The insuring agreement usually states the perils insured against, the person(s) and/or property covered, the property locations, and the period of the contract.

## **Judgment Rating**

A rating modification (either decrease or increase) that is based on the underwriters experience, best judgment, and analysis in classifying and underwriting a particular type of risk.

## **Lapse**

In property and casualty insurance a lapse in the termination of a policy because of a failure to pay premium when due.

## **Liability Insurance**

Coverage for a policyholder's legal liability resulting from injuries to other persons or damage to their property.

## **License**

A certificate of authority issued by the CDI to an insurer, agent, broker, or broker-agent to transact insurance business.

## **Limits of Insurance**

The maximum amount of benefits the insurance company agrees to pay in the event of a loss.

## **Loss of Consortium**

A potential situation in any bodily injury claim (including Workers Compensation claims) where a spouse contends that the bodily injury of their partner deprives them of the natural affection (spousal duties), help, and companionship of said spouse.

## **Loss Payable Clause**

A provision that authorizes the insurer to make a loss payment to a person, company, or organization (loss payee) other than the insured. The loss payee must have an insurable interest (such as a lienholder for business personal property or a mortgagee on real property).

## **Managing General Agent (MGA)**

An agent contractually authorized by an insurance company to manage all or part of the insurer's business activities. An MGA can manage the marketing, underwriting, policy issuance, premium collection, appointing and supervision of other agents, claims payments, and reinsurance negotiations of an insurance company.

## **Material Misrepresentation**

A factual falsification made in such a manner that the insurance company would have refused to insure the risk if the truth had been known at policy issuance. A material misrepresentation gives an insurance company grounds to rescind a contract.

### **Misquote**

An incorrect estimate of an insurance premium.

### **Nonpayment of Premium**

Failure by the policyholder to pay the premium on a policy or pay the installment premium payments due on a policy.

### **Nonrenewal**

The termination of an insurance policy on its normal expiration date.

### **Occurrence**

A liability insurance policy that covers claims arising out of occurrences that take place during the policy period, regardless of when the claim is filed.

### **Peril**

Cause of loss.

### **Personal Lines**

Insurance written on the personal and real property of an individual (or individuals) to include such policies as homeowners insurance and personal auto insurance, as contrasted with commercial lines.

### **Policy**

A contract that states the rights and duties of the insurance company and the insured.

### **Premium**

The monetary payment that an insured makes to an insurance company in exchange for the contract indemnifying the insured against potential loss. Simply put this is the payment made by the insured to keep an insurance policy in effect.

### **Producer**

A term used by the insurance industry to refer to agent, brokers, broker-agents, and solicitors.

### **Pro Rata Cancellation**

A cancellation of a policy by an insurance company that returns the unearned premium to the policyholder (the portion of the premium for the remaining time period that the policy will not be in force).

### **Provisions**

The statement of policy conditions in an insurance policy.

### **Public Adjuster**

A licensed person or organization that represents the policyholder by contract in property damage claims negotiations with an insurance company.

### **Quotation**

An estimate of the cost of insurance based on the information supplied to the agent, broker, broker-agent, or the insurance company.

### **Recision**

The cancellation of an insurance policy back to its effective date resulting in a return of all premium charged.

### **Regulations**

Requirements developed by the CDI that implement laws passed by the legislature. Regulations go through a public comment process and must be approved by the state Office of Administrative Law.

### **Reinstatement**

The restoration of a lapsed or canceled policy.

### **Renewal**

The continuation of an insurance policy (offer of renewal) into a new term from the same insurance company that issued the existing policy.



## **Replacement Cost**

The amount that it costs to replace lost or damaged property with new property of like kind or quality in the local market.

## **Schedule Rating**

A method of pricing property and liability insurance. Schedule Rating uses debits and credits to modify a base rate figured by the special characteristics of the risk exposure. Insurers develop Schedule Rating because actuarial experience shows a direct relationship between certain physical characteristics and the possibility of loss. Most schedule rating plans must be filed and approved by the CDI.

## **Second Party**

The insurance company in an insurance contract.

## **Self-Insured Retention (SIR)**

The portion of a property or liability loss retained by a policyholder.

## **Severity**

The size of a loss. Loss severity is used as a factor in establishing premium rates.

## **Short Rate Cancellation**

A cancellation initiated by policyholder request in which the premium returned is subject to an administrative penalty.

## **Sistership Liability**

Exists when a manufacturer refuses to withdraw a product as ordered by a government agency or company management. Once a defective product has been identified and recalled, an insurance company excludes all other claims arising from the defective product due to the negligent failure of the company to take the product off the market.

## **Split Limits**

The technique for expressing limits of liability coverage under a particular insurance policy by stating separate limits for different types of claims growing out of a single event or combination of events. Coverage can be split (limited) per person, per occurrence, between bodily and property damage, or in other ways.

## **Subrogation**

The process of recovering the amount of claim damages paid out to a policyholder from the legally liable party. When a company pursues the legally liable third party, they are required to include the policyholder's deductible in the recovery process.

## **Third Party**

An individual other than the policyholder or the insurance company who has suffered a loss and may be able to collect compensation under the policy due to the negligent acts or omissions of the policyholder.

## **Third Party Over**

The legal doctrine that involves an injured employee bringing suit against a third party who (for one reason or another) is able to bring an action against the employer.

## **Underwrite**

The process to evaluate the insurance application and independent sources in order to verify the information provided and to determine the acceptability of the risk.

## **Underwriter**

The person who performs the underwriting process to accept, reject, or modify risks on behalf of the insurer.

## **Unearned Premium**

The portion of the written premium applicable to the unexpired or unused part of the policy period for which the premium has been paid. For example, in an annual premium policy 11/12 of the premium is unearned at the end of the first month of the policy.

**Waiver**

The relinquishment of a known right, which may be expressed or implied.

**Written Premium**

The total premium on all policies written by an insurer during a specified period of time, regardless of what portion has been earned.

# Talk to Us

Do you have a question, comment or concern?

There are several ways to talk to us:



- Call our Consumer Hotline at **(800) 927-HELP**
- Telecommunication Device for the Deaf dial **(800) 482-4TDD**
- Telephone lines are open from **8:00 AM to 6:00 PM Pacific Time, Monday through Friday**, excluding holidays



- Write: **California Department of Insurance  
300 South Spring St., South Tower  
Los Angeles, CA 90013**



- E-mail us through our Web site at:  
**[www.insurance.ca.gov](http://www.insurance.ca.gov)**



- Visit us in person on the 9th Floor at the address above. **Office Hours: Monday through Friday 8:00 AM to 5:00 PM Pacific Time**, excluding holidays